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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
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COMMISSIONER

DATE: August 28, 2006

LETTER NO.: 2006-CU-06

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

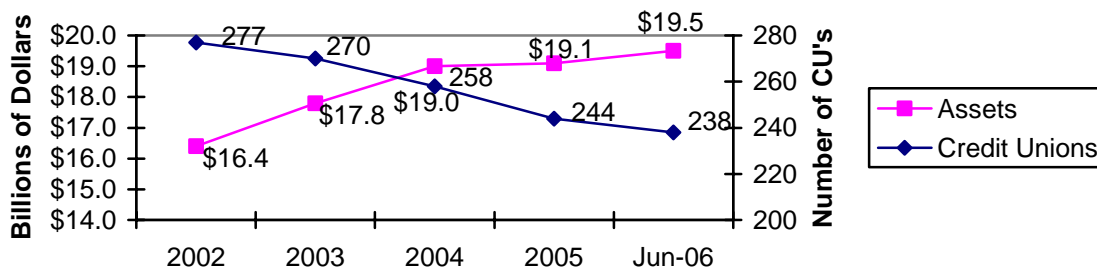
SUBJECT: 2006 Second Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the June 30, 2006 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

The number of Michigan state-chartered credit unions declined by five during the second quarter of 2006. Asset growth declined considerably during the second quarter of 2006 to -0.84% (annualized), well below the 7.93% for the first quarter of 2006. The number of credit unions reporting a decline in assets greater than 5% increased from 36 at March 31, 2006, to 40 at June 30, 2006. However, assets remain nearly \$340 million greater than year end 2005 (Figure 1).

Figure 1

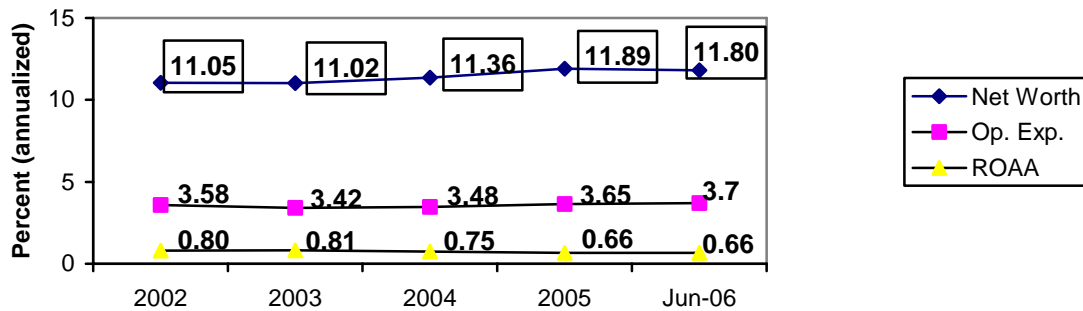


Interest Margin Improves

Net worth increased from 11.71% at March 31, 2006, to 11.80% at June 30, 2006. The increase in the net worth ratio can be attributed to the slight decline in assets and improved earnings. Gross income increased 18 basis points during the second quarter of 2006 while the cost of funds went up only six basis points and operating expenses declined four basis points (Figure 2).

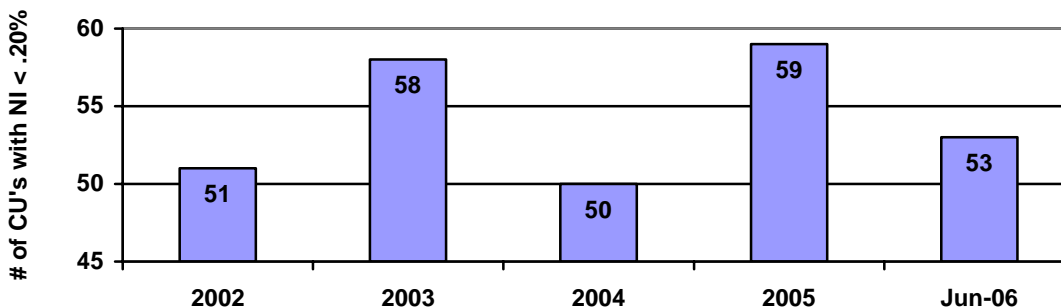
The increase in the spread between interest income and cost of funds can be attributed to the increase in higher yielding loans, while shares and assets declined during the same period. Despite the decline in assets during the second quarter, aggregate loans increased 7.34%, while shares and deposits declined nearly 3.51% (\$150 million).

Figure 2



Return on average assets increased 14 basis points to 0.66% during the second quarter of 2006. The number of credit unions reporting an ROAA of less than .20% was 53 at June 30, 2006, a decline of 20 from the first quarter of 2006 (Figure 3).

Figure 3



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Asset Quality Remains Sound

The aggregate delinquency ratio decreased slightly from 1.03% to 1.01% during the second quarter of 2006. The aggregate net charge-off ratio increased from 0.56% to 0.66% during the same period. The number of credit unions reporting an increase in net charge-offs greater than 100 basis points declined from 21 to 14 during the second quarter of 2006. However, credit unions reporting net charge-offs greater than 1.5% of average loans increased by two to 25 at June 30, 2006.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division